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SIPDIS

DEPT FOR EB/OIA, EB/CBA AND EUR/SE
TREASURY FOR OASIA - MALACHY NUGENT
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SENSITIVE

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SUBJECT: Turkish-Syrian Economic Relations Grow

Sensitive but Unclassified. This is a joint cable with
Consulate Adana.

11. (SBU) Summary. Starting at very low levels, there has been substantial growth of Turkish business with Syria although bilateral trade and investment remain trifling as a share of Turkey's overall trade and economy. Most of the benefits of the growth of the economic relationship have accrued to businesses in the impoverished Southeast, which also have the brightest hopes for future trade and investment growth. If the UN decides to impose economic sanctions on Syria, probable objections from Southeastern businesses would find a sympathetic audience elsewhere in Turkey and politically complicate the Turkish government's ability to impose such measures. End Summary.

Improving Trade Relations and Bilateral Agreements

12. (SBU) Since the two countries began cooperating against the PKK in 1999, Turkish-Syrian commercial relations have been improving, albeit unevenly, along with political relations. Relations accelerated after the AKP government came to power in 2002. Turkey and Syria signed a bilateral "Free Trade Agreement" (FTA) in 2004 as part of the regional EU Partnership process. As a member of a customs union with the EU, Turkey is bound to attempt to negotiate parallel agreements to those established by the EU. However, parallel with the EU's suspension of finalizing its Association Agreement with Syria, the GOT has held off submitting the "FTA" to the Turkish parliament and it has not entered into force. We understand that the agreement would eliminate tariffs on non-agricultural goods (as with most EU agreements, the FTA does not include agriculture or services) over 12 years. The FTA no doubt exempts a long list of sensitive products. In 2004, Turkey and Syria also concluded an Avoidance of Double-Taxation Agreement and an Agreement on Reciprocal Promotion and Protection of Investments. Unlike the FTA, these agreements entered into force in August 2005.

13. (SBU) The AKP government has made a concerted effort to improve relations with neighboring countries (except Armenia) and Muslim countries. Developing trade relations with neighboring countries has been a priority of State Minister Kurshad Tuzmen, who is responsible for trade and customs. Since he took office in 2002, trade with neighboring countries has indeed grown from 5% to 30% of Turkey's total trade. Tuzmen, a member of Parliament from Gaziantep, seems to have a special interest in Syria. He sometimes claims to have ancestral ties to and continuing family relations (and perhaps property) in northern Syria. (In fact, cross border family relationships are quite common.)

Current Trade and Investment Flows

14. (SBU) Turkish exports to Syria are mostly refined oil products, boilers, machinery, and automotive and auto parts (particularly after the Syrian Government lifted a ban on secondhand machinery imports in 2004). Exports totaled \$392 million in 2004. Turkish 2004 imports of \$358 million consisted of cotton and wool, seeds, and fruits and vegetables. (See data below.) Syrian and Turkish officials have said they aim to increase the bilateral trade volume to \$2 billion from its current \$750 million level (equivalent to 0.5% of total Turkish foreign trade of \$150 billion).

15. (SBU) The largest known Turkish investment in Syria is the Akteks textile factory near Aleppo. The factory, which produces yarn, burned down several years ago and the company still suffers from well-publicized unresolved insurance claims. While this incident has added to the caution of Turkish businesses, business contacts in the

Southeast see construction as a promising sector. Turkish construction companies tell Consulate Adana they have been granted USD 106 million in contracts in Syria and are hopeful that they will get a significant share in the upcoming tenders for infrastructure projects. Major Turkish construction companies including as Nurol and Guris have offices in Syria and closely follow the opportunities in the construction sector.

----- Infrastructure Upgrades -----

16. (SBU) To complement the active Turkish consulate in Aleppo, Turkey has agreed to allow Syria to open a consulate in Gaziantep that would facilitate business contacts. The leading Turkish business association, TOBB, has also constructed (on a BOT basis) a new border facility at Kilis that would provide a direct link between Gaziantep and Aleppo. The Syrians have yet to finish the matching infrastructure on their side of the border. Similarly, the Syrians have not built a planned border facility that would link Aleppo to the Turkish city of Sanliurfa. The Turks have been refurbishing a mostly disused 40 km stretch of the Hijaz Railway between Islahiye and Meydan al-Ekbez on the Syrian border. Once similar work is completed on the Syrian side, the line is slated to go back into service with two passenger and four freight trains per day, linking northern Syria more directly into the Turkey's western rail network. Finally, despite Turkey's efforts, the two countries have not been able cooperate on management of the shared Euphrates or Orontes River basins.

----- -- Benefits Mainly Felt in Turkey's Poor Southeast ----- --

17. (SBU) Within Turkey, most of the benefits of growing trade with Syria seem to be accruing to businesses in the impoverished Southeast. However, local businesspeople tell Consulate Adana that trade growth is inhibited by lack of financing mechanisms, poor distribution channels, few credible banks and opaque Syrian business practices, as well as Syrian restrictions on imports. None expressed real enthusiasm for doing business in Syria. Nonetheless, prior to the initial release of the Mehliis report last month, several business associations in the region issued press statements arguing that UN Sanctions on Syria would harm their newly established economic relationships.

----- Comment -----

18. (SBU) Although trade volume with Syria amounts to a trifling 0.5% of total Turkish trade, most of the beneficiaries of the current \$750-800 million in annual bilateral exchanges appear to be located in the Southeast. Many businesses have looked to trade with Syria as one way to help pull the area out of its persistent poverty. Southeastern businesses were the most vocal about losses due to the Iraq embargo. If the UN were to impose economic sanctions on Syria, Southeastern businesspeople would be similarly vocal in opposition and would find a sympathetic audience elsewhere in the country, as well as in the bureaucracy and AKP government, further complicating the government's ability to implement such measures.

----- TRADE STATISTICS -----

BILATERAL TRADE BETWEEN SYRIA AND TURKEY (USD 1,000)

Year	TR Exports	TR Imports	Volume	Balance
1995	272.1	258.1	530.2	14.0
1996	307.8	311.5	619.3	-3.7
1997	268.8	456.3	725.1	-187.5
1998	308.9	308.0	616.9	0.9
1999	232.2	307.0	539.2	-74.8
2000	184.3	544.3	728.6	-360.0
2001	281.1	463.5	744.6	-182.4
2002	256.5	506.2	762.7	-249.7
2003	410.8	413.3	824.1	-2.5
2004	391.8	357.6	749.4	34.2
Jan-Aug:				
2004	246.1	283.8	529.9	-37.7
2005	348.4	171.9	520.3	176.5

MAJOR TRADE ITEMS (USD mil, as of Jan-Jul 2005)

Turkish Exports

Item	Value
Mineral fuels, mineral oils	117.7
Boilers, machinery	27.0
Man-made staple fibers	21.0
Automotive and side industry	15.1
Iron and Steel	14.2
Salt, sulphur, cement, etc.	13.8
Plastics and Articles	13.1
Animal or Vegetable fats	13.0
Articles of iron and steel	12.5
Electrical machinery	9.9
Other	52.5
Total	309.8

Turkish Imports

Item	Value
Mineral fuels, mineral oils	92.8
Cotton	48.2
Salt, sulphur and cement	3.0
Plastics and Articles	2.8
Iron and Steel	2.6
Edible vegetables	2.3
Oil seeds and fruits	1.4
Coffee and tea	0.7
Wool	0.6
Wood	0.4
Other	3.8
Total	158.6

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